BoardRoom Press

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It's (All/Somewhat) Over?

As you read this, it will be about a month since the federal government officially ended the PHE. Hopefully the debt ceiling will have been lifted and we will still be functioning as a nation. These two major issues feel like a virtual cliff forcing us all into yet another phase of uncertainty to navigate. How will this impact hospital finances? How will people pay for tests and vaccines? What impacts will we feel from the thousands of people losing Medicaid coverage? Will there be another COVID (or other) surge impacting hospital capacity?

While there are not yet clear answers to these questions, my hope is that our readers feel prepared to jump in and develop creative ideas and solutions to move their organizations forward. I picture those skin care commercial graphics showing the outer layer of the epidermis being smoothed by treating it from the inside out. What if we can smooth our next transition by ensuring that our inner functions are at their peak?

Our new partnerships and our activities with them will be different. Our understanding of our markets and communities will go deeper. Our focus on effective governance will get stronger. Our brand recognition will spread, in the right ways and for the right reasons. And our leaders will be rewarded for delivering new results. This issue of *BoardRoom Press* covers these essential governance topics and more. As always, please send me your feedback.

Kathryn C. Peisert

Kathryn C. Peisert,
Editor in Chief & Senior Director

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Understanding Your Market to Take on the "Right" Strategies

By Jeremy Normington-Slay, D.P.T., FACHE, Firelands Health

Healthcare has not been historically wired to take big risks. This is understandable given taking a non-essential risk in a surgical procedure or pharmacological intervention could have a devastating impact on a patient. However, there are also high-risk interventions that may be the only life-saving option.

Jeremy Normington-Slay, D.P.T., FACHE
President and CEO
Firelands Health

In recent years, healthcare organizations and their governing boards are being asked to provide high-quality but low-cost care, and to improve patient satisfaction. At the same time, providers have less reimbursement to do the necessary work. This reality has forced hospitals and health systems to look deeper into their local market dynamics to consider new strategies that will meet the current demands while maintaining, or returning to, sustainability.

Although every hospital and health system is unique, there are a number of consistent factors that organizations must consider to evaluate and act upon the right strategic initiatives.

Make Time for Strategic Discussions

It is imperative for governing boards and hospital executives to find time to discuss strategic endeavors. This work should not only occur at annual strategic planning sessions but should be regularly incorporated into meetings throughout the year.

Firelands Heath is a single-hospital health system with approximately $300 million in net revenue and 2,000 associates. Our highest level of governance is the health system board of directors. This group currently meets six times per year, with each meeting lasting approximately 90 minutes each. Strategic planning discussions account for at least 75 percent of that time. As CEO, I value this time more than any other 90 minutes of my schedule.

You might ask, "With all of the regulatory and reporting requirements, how do you manage to devote that much time to strategic planning?" The answer for us lies in the segregation of duties and the regular use of a consent agenda.

Firelands Health has a separate medical center board of directors that is primarily responsible for the oversight of quality and safety, patient satisfaction, community health, and employee engagement. This board also meets six times per year, with those meetings lasting 60 minutes in duration. The medical center board reviews and acts on many of the items required to support accreditation standards and hospital operations. They use a consent agenda for items that do not require in-depth discussion since they are thoroughly vetted at the committee level. We have also given some committees, such as audit and compliance and investment management, authority to act on behalf of the medical center board versus being advisory in nature.

Another way to free up time for strategic discussion is to decrease board and committee meeting frequency. This may sound counterintuitive, but many hospital boards were established at a time when executive and managerial leadership was lacking. Hospitals often didn't employ their own lawyers or have health lawyers at their disposal. Board members were typically the main recruiters of physicians to the community, and hospital human resource teams relied on the expertise of board members to handle difficult healthcare employment issues.

However, times have changed. During the last five years, Firelands Health has decreased its overall board meeting frequency by more than 50 percent, and we have asked our board of directors to focus only on true governance and strategic planning. In doing so, we are allowing hospital management to handle the day-to-day operations of the organization. This is a win-win for both hospital management and the board. Board and committee meetings are not only time- and resource-intensive, but it is also increasingly difficult to recruit board members who have time to spare outside of their primary responsibilities. Focusing board member time on the highest priorities is paramount to effective governance.

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Key Board Takeaways

To make accurate decisions around new and progressive strategies to reach or maintain sustainability for their organizations, healthcare leaders and governing boards should take the following steps:

- Make time to discuss strategic endeavors.
- Invest in education from internal and external experts.
- Collaborate with other local entities.
- Use data to drive strategic decisions.

Invest in Education

For decades, many hospitals relied on their internal expertise to navigate the waters of the changing healthcare environment. This has served the industry well in the past, but with the current state of U.S. healthcare, this approach will not likely be adequate in the future. Although consultants are not the answer for every strategic initiative, there may be instances where an outside perspective could be beneficial.

In addition to project-specific experts, Firelands Health has scheduled multiple education sessions for its boards and executive team with both internal and external presenters. In 2022, Firelands Health partnered with The Governance Institute and other area hospitals for a joint board education session. This not only provided excellent education and allowed for cost efficiencies, but it also encouraged our board members to interact with and get to know their counterparts at neighboring hospitals.

Collaboration Is Key

When developing strategies in your local market, it is essential to think about collaborative and competitive partnerships. Other entities to consider will include medical groups, area hospitals, public health departments, and local non-profits. Although we can often feel like we are playing a complicated game of chess in one of the most competitive industries, organizations should consider collaborating when doing so will benefit all stakeholders. This is true even if the gain is larger for some entities than others.

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Partnerships Go Bold as Organizations Face New Challenges

By Courtney Midanek, Kaufman, Hall & Associates, LLC

The past three years have created a new reality for not-for-profit hospitals and health systems. The pressures of responding to the COVID-19 pandemic put enormous stress on the clinical workforce, resulting in a wave of early retirements that compounded a nursing staff shortage that had been predicted before the pandemic began.[1] Staffing shortages have contributed to wage inflation and have required hospitals to rely on more expensive contract labor; in some cases, shortages have meant that hospitals must run at less than full capacity, hindering efforts to generate revenue. Inflationary pressures have increased the costs of supplies and purchased services. In key areas—including emergency department visits—volumes continue to lag pre-pandemic levels. And the migration of care to outpatient settings continues, posing new competitive challenges for legacy hospitals and health systems.

As the nation moves further from the heights of the pandemic, it seems increasingly clear that these changes represent a permanent reset of revenue and cost structures for not-for-profit healthcare. For more than a year, a majority of hospitals have seen negative operating margins.[2] This appears to be a transformational moment for not-for-profit healthcare, and recent trends in partnerships, mergers, and acquisitions indicate that hospitals and health systems are exploring increasingly bold strategies to meet these new challenges.

This article considers three key trends:

- Rapid escalation in the size of partnership transactions
- Growth in the number of cross-regional partnerships
- Emerging discussions of new affiliate models that support the continued independence of small and mid-sized health systems

Escalating Transaction Size

While the number of M&A transactions between hospitals and health systems has been lower since the pandemic began in March 2020, the size of those transactions has increased markedly. Last year, the average size in annual revenue of the smaller party to a transaction reached a historic high of $852 million, up from just under $400 million in 2020 (see **Exhibit 1**). For the past two years, 15 percent or more of the transactions have had a smaller party with annual revenues exceeding $1 billion.

This data suggests that health systems—even those with revenues in excess of $500 million—are finding it increasingly difficult to generate sufficient revenue to cover the high costs of running a not-for-profit health system. They are seeking efficiencies, new capabilities, or access to capital that will enable them to reduce operating costs, provide new revenue-generating services, and improve their competitive position.

Cross-Regional Partnerships

On an even larger scale, the number of partnerships between large, regional health systems is growing, creating new health systems that span multiple geographies. These mergers may combine health systems in adjacent or near-adjacent geographies (e.g., western Michigan-based Spectrum Health's 2022 merger with Beaumont Health in eastern Michigan to create Corewell Health) or involve partnerships

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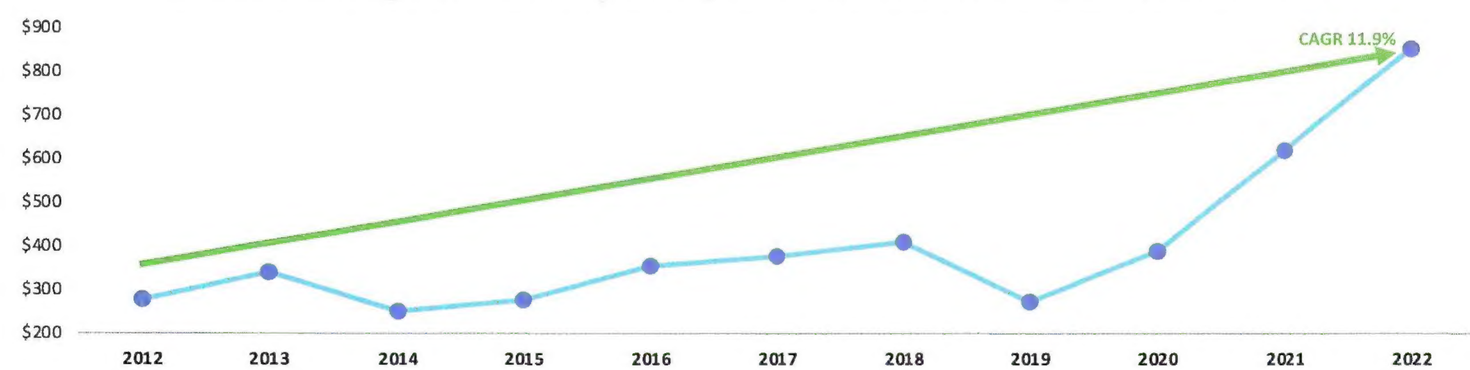
Key Board Takeaways

As boards discuss potential partnership opportunities with leadership, key questions include:

- Is our health system generating a sustainable operating margin? Do we need to seek new efficiencies, capabilities, or enhanced access to capital to remain on a sustainable path forward?
- Are there service line or capability gaps that could benefit from a best-in-class, specialty provider who might bring capital, operational expertise, or other resources?
- What attributes of our health system would make us attractive to a potential partner? Could we attract the interest of a partner outside of our home region?
- Do we have unique or particularly strong administrative or clinical capabilities that we could offer to other health systems?
- Do we want to maintain governance control over local healthcare delivery decisions?

Exhibit 1: Average Smaller Party Size by Annual Revenue, 2012–2022 ($s in Millions)



Source: Kaufman, Hall & Associates, LLC

1 Stephen P. Juraschek, et al., "United States Registered Nurse Workforce Report Card and Shortage Forecast," *American Journal of Medical Quality*, September/October 2019.

2 Kaufman Hall, *National Hospital Flash Report*, March 28, 2023.

Attributes of Effective Health System Boards

By Lawrence Prybil, Ph.D., LFACHE, College of Public Health, University of Kentucky

America's health sector and society at large are in a period of immense change. An aging and increasingly diverse population, economic issues of great scope and complexity, a toxic political environment, and growing evidence of major disparities in healthcare access, affordability, and quality are among the many powerful forces that are affecting healthcare consumers, payers, and providers.[1] At the same time, there is abundant evidence that the cost and quality of healthcare in the United States does not compare favorably to other highly developed nations.[2]

These forces and facts pose difficult challenges for the governing boards of our nation's non-profit health systems. A multiplicity of factors contribute to creating these challenges, and there are no easy solutions for them. However, health system boards have legal and moral responsibility for their organizations, which collectively provide a large and growing proportion of our nation's health services and *must* provide direction and leadership for them.

Accordingly, the governing boards of these increasingly complex organizations—with input from their management and clinical leadership teams and external stakeholders—have a fundamental duty to review and assess on an ongoing basis the role of their board, how well it is performing, and their board's composition, operations, and culture. This article identifies and addresses six basic attributes that characterize highly effective governance and should be considered when non-profit health system boards initiate and conduct self-assessments.[3]

Six Basic Attributes of Effective Boards

In all sectors of American society, there has been growing awareness of the importance of governance and recognition that the level of board effectiveness has substantial impact on *organizational* performance. As stated recently by the National Association of Corporate Directors, "Navigating the volatile business environment of today and tomorrow requires an increasingly agile and well-informed board that is purpose-driven and understands the interrelationships and co-dependencies between long-term corporate success and the interests of shareholders, customers, employees, and other key shareholders."[4]

In the health sector, The Governance Institute has served a leading role in identifying, studying, and explaining the principles and practices that affect board performance and effectiveness.[5] From decades of organizational evidence and numerous studies, it seems evident that the basic attributes of effective healthcare boards include the following:

1. **A clearly stated and widely understood definition of the mission and priorities of the organization they are responsible for governing**: Throughout the country, dramatic changes are taking place in the organization and delivery of health services. Around 70 percent of community non-profit hospitals are now integrated into health systems and a large majority of physicians are employed by or closely affiliated with health systems or other health-related organizations. At the same time, a growing number of health systems have developed various forms of partnerships with health plans—like Corewell Health based in Michigan, Intermountain Health based in Utah, and numerous others—or have established and operate their own plans.

   In addition, many health systems are expanding the scope of services they provide for their communities beyond their traditional focus on inpatient and outpatient care. As one important illustration, The Governance Institute's 2021 biennial survey found that 84 percent of participating organizations report that their involvement in *population health improvement activities* has increased since the previous survey in 2019.[6]

Key Board Takeaways

- Review and discuss your system's mission and your board and committee charters to ensure that they are accurate and up-to-date.
- Take a look at the timing and outcomes of your board's most recent self-assessment. How long has it been since that process was conducted? Did that self-assessment identify changes that could and should be made to improve the board's structure, processes, and/or culture? Have those changes been implemented and, if so, have they resulted in improvements in your board's performance?
- Monitoring performance, gaining knowledge from that process, and making improvement based on those insights should be an ongoing process for every board, not an occasional event. Should the board employ the same approach used in the past or should the evaluation model evolve along with the board?* Consider this question, and adopt the approach you believe would yield the most insights and value.
- In selecting the board's next self-assessment approach and objectives, consider the six fundamental board attributes discussed in this article, and whether you should focus your next self-assessment process—at least in part—on one or more of them.
- All board assessment processes should consider the profound changes that are taking place in our nation's health sector, and strive to make strategic decisions that will position the organization for long-term success in that dynamic environment.

* The Governance Institute's BoardCompass® suite of evaluation tools allow for various forms of modification and changes as the board's performance improves and assessment focus areas evolve.

1 See, for example, Joseph Dieleman, et al., "U.S. Health Care Spending by Race and Ethnicity: 2002–2016," *Journal of the American Medical Association*, August 2021; David Radley, et al., "2022 Scorecard on State Health System Performance," The Commonwealth Fund, June 2022.

2 Eric Schneider, et al., "Mirror, Mirror 2021: Reflecting Poorly: Health Care in the U.S. Compared to other High-Income Countries," The Commonwealth Fund, August 2022.

3 This set of attributes is based on my experience in serving on the boards of non-profit and investor-owned organizations, including several health systems; leading several externally-funded studies of governance in non-profit hospitals, health systems, and academic medical centers; and ongoing review of studies and reports on governance written by other parties.

4 *A Framework for Governing into the Future*, National Association of Corporate Directors, 2022, p. 11.

5 For example, see Kathryn Peisert and Kayla Wagner, *Advancing Governance for a New Future of Healthcare*, The Governance Institute's 2021 Biennial Survey of Hospitals and Healthcare Systems.

6 *Ibid.*

Major changes of this nature, of course, should be based on deliberate strategic planning and governance decision making. They require corresponding modifications to the organization's mission and system-wide priorities. Successful implementation necessitates extensive efforts to build understanding and support for these changes throughout the system, within the communities it serves, and by other key stakeholders. Failure to do so will result in misunderstanding and confusion.

2. **Systematic and continuous efforts to identify board composition gaps and an excellent board succession planning process**: Major factors influence the effectiveness of governance in corporate organizations such as health systems. Among these factors are the size of the board, the board members' commitment to the organization and its mission, the quality of board leadership and staff support, how the board is structured (e.g., the number and roles of standing committees), and the policies and procedures that are in place to provide board members with the information they need and employ their time and efforts properly. However, there is broad agreement among board experts that the *composition* of boards—their collective experience, expertise, and independence—is the most important determinant of board effectiveness.[7]

   In all types of corporate organizations, two of the fundamental mechanisms for identifying the talent and diversity that boards require to perform their duties well and selecting persons who bring those skills and viewpoints to the board table are 1) developing and continually updating an inventory or "matrix" of the board's needs for competencies and 2) a well-established board succession planning process. A national study completed recently by the National Association of Corporate Directors (NACD) found that "improving board succession planning" was ranked by corporate board members as one of the most important priorities for improving their board's performance.[8] In the increasingly complex health field, the importance of systematic succession planning for board members and board leadership would seem self-evident.

   It is surprising, therefore, that in the health field and other sectors, board succession planning processes often are not in place. To illustrate, The Governance Institute's 2021 biennial survey found that only 44 percent of the participating organizations had an explicit process for leadership succession planning to recruit, develop, and choose future board officers and committee chairs.[9] This is disappointing and unfortunate since systematic board succession planning is vitally important.

> There is broad agreement among board experts that the composition of boards—their collective experience, expertise, and independence—is the most important determinant of board effectiveness.

3. **The respective roles, responsibilities, and authority of the CEO, board, and committees are formally defined, expressed in writing, and regularly discussed by all parties to ensure mutual understanding and support**: In all types and sizes of corporate organizations, a lack of clarity regarding who has the primary responsibility for what duties and decisions is a recipe for misunderstandings, confusion, and conflicts. Clarity is particularly critical in large, complex organizations such as non-profit health systems that exist in a turbulent and rapidly changing environment. Without exception, the current roles, responsibilities, and decision-making authority of these parties should be placed in written form, formally approved by the board with the CEO's input, and reviewed and updated, as needed, on a regular basis. Position descriptions for the CEO and the board chair and charters for the board and standing board committees are essential.[10] Too often, these documents are developed, adopted, and filed away rather than being used to inform and educate new members of the system's leadership team, guide behaviors, and facilitate constructive relationships. Even worse, some systems have not even created documents of this nature.

> Too often, position descriptions and charters are developed, adopted, and filed away rather than being used to inform and educate new members of the system's leadership team, guide behaviors, and facilitate constructive relationships.

4. **Excellent communications and a mutually respectful, trust-based relationship between the board chair and the CEO**: Understanding the importance of this relationship and a strong commitment to creating and maintaining it are responsibilities that must be shared by both the board chair and CEO. Furthermore, the quality of their communications and the level of their respect and trust should be reviewed and nurtured on an ongoing basis. This clearly is one of the hallmarks of successful organizations. As one illustration, in a study of governance in 14 of the 15 largest and most successful non-profit health systems in the United States, 90 percent of the board members and CEOs in confidential, one-on-one interviews expressed their opinion that "Our CEO–board chair relationship is consistently excellent."[11] They also agreed this was a key contributor to the quality of governance performance.
5. **The allocation of board time and efforts involves a deliberate balance among oversight of the system's ongoing operations, performance, and long-range direction and strategy**: The most precious asset of all governing boards is the time of their members. Employing that asset wisely is one of the most vital responsibilities of board leadership and their executive team.

   Of course, board agendas and deliberations must include careful

7 Lawrence Prybil and Larry Gage, "Best Practices in Board Succession Planning," *Boardroom Press*, The Governance Institute, October 2020, p. 5.
8 *2023 Governance Outlook*, National Association of Corporate Directors, p. 7.
9 Peisert and Wagner, 2021, p. 125.
10 For sample job descriptions and charters, see The Governance Institute's template library at www.governanceinstitute.com/templates.
11 Lawrence Prybil, et al., *Governance in Large, Nonprofit Health Systems*, Commonwealth Center for Governance Studies, Inc., 2012, pp. 21–22.

attention to the system's performance in relation to established objectives and operating targets. The CEO and his or her management team must fulfill their accountability to the board by providing complete and timely information on the system's operations with corrective plans when targets are not being met.

Careful monitoring of system operations is a necessary—but not sufficient—duty of the governing board. There also must be careful attention to the system's long-term direction, priorities, and strategies. In today's complex and rapidly changing environment, there is great temptation to devote a major proportion of board time to reports and dialogue regarding the system's current issues and performance. However, there is substantial evidence that the boards of successful organizations also make a strong, consistent commitment to addressing long-range issues, opportunities, and challenges.[12]

The results of The Governance Institute's 2021 biennial survey found considerable variation in how the boards of participating organizations allocate their time and effort. On the whole, system boards devoted about 36 percent of meeting time to "strategic discussions," up from 34 percent in 2019 and 31 percent in 2017.[13] These findings suggest that system boards are making efforts to rebalance their time allocation and focus somewhat more time to strategic issues and deliberations. However, it is still less than the over 50 percent target that is suggested by The Governance Institute and other experts.

In today's complex and rapidly changing environment, there is great temptation to devote a major proportion of board time to reports and dialogue regarding the system's current issues and performance. However, there is substantial evidence that the boards of successful organizations also make a strong, consistent commitment to addressing long-range issues, opportunities, and challenges.

6. **A highly engaged and proactive board culture**: Over time, either deliberately or inadvertently, every corporate board of directors creates a *governance culture*—a pattern of beliefs, traditions, and practices that comes to prevail consistently when the board convenes to perform its duties. Some boards are insufficiently committed to their governance responsibilities and have created a passive culture with low performance standards. This combination generally results in ineffective governance and organizational problems.

   On the other hand, there is growing evidence and recognition that a healthy board culture is conducive to effective governance. A landmark study by the Hospital Research and Educational Trust in 2007 and subsequent studies by several organizations have identified key characteristics or "dimensions" of an engaged, dynamic, and proactive board culture.[14] These include:
   - The board's actions demonstrate deep commitment to the organization's mission and values.
   - There is a strong focus on honoring conflict-of-interest and confidentiality policies.
   - There is an atmosphere of strong mutual trust and respect among the board members.
   - The system's performance (financial and clinical) is tracked closely by the board and decisive actions are taken when performance does not meet established targets.
   - Board leadership holds board members to high standards of performance.
   - Robust engagement and respectful disagreement is always encouraged.
   - Board meetings are well-organized and consistently focus major attention on strategic deliberations, rather than mainly receiving reports and listening to presentations.

Closing Remarks

A multitude of factors have some degree of influence on determining the effectiveness of governance in complex organizations. The six attributes of boards discussed in the article were selected for two reasons: First, because there is large agreement among experts that they have significant impact on board performance and, second, because there is evidence that the extent to which these attributes are present in health system boards varies widely. For these reasons, when boards wish to assess their current structure, processes, and performance, they are encouraged to consider including these attributes in the scope of their review.

The Governance Institute thanks Lawrence Prybil, Ph.D., LFACHE, Norton Professor in Healthcare Leadership (Ret), College of Public Health, University of Kentucky, for contributing this article. He can be reached at larryprybil@gmail.com. The author thanks University of Kentucky 2023 M.H.A. graduates Corbin Kirksey, Administrative Fellow, Cincinnati Children's Hospital Medical Center, and Shivang Patel, Administrative Fellow, Cleveland Clinic, for their assistance in reviewing current governance in the process of preparing this article.

Recommended Governance Institute Resources

- Board Self-Assessment: A Core Responsibility (Elements of Governance)
- "Expanding Board Criteria Beyond Competencies to Enable More Holistic Recruitment" (*BoardRoom Press* Article)
- Board Recruitment (Intentional Governance Toolbook)
- Board Leadership Succession Planning (Intentional Governance Toolbook)
- "Best Practices in Board Succession Planning" (*BoardRoom Press* Article)
- The Board Chair–CEO Partnership: An Essential Element of Successful Healthcare Organizations (Toolbook)
- Board Culture (Intentional Governance Toolbook)

12 Ariel Babcock, et al., "The Long-Term Habits of a Highly Effective Corporate Board," Harvard Law School Forum on Corporate Governance, April 19, 2019.
13 Peisert and Wagner, 2021, pp. 21–22.
14 Julie Yonek, et al., *A Guide to Achieving High Performance in Multi-Hospital Health Systems*, Hospital Research and Educational Trust, 2010; Rani Doyle and Kris Pederson, *How to Achieve Enduring Board Effectiveness*, EY Center for Board Matters, July 2022.

Modernizing Executive Compensation Plans: A Deep Dive for the Board

By Alexander Yaffe, Pearl Meyer

Key Board Takeaways

- Review your executive compensation philosophy:
  - Is compensation structured in a way that differentiates your organization from the competition for talent?
  - Are you appropriately evaluating peer data—national versus regional pay, the practices of direct competitors versus aspirational, etc.?
  - Does the plan design and committee application acknowledge the humanistic side of pay and benefits?
- Evaluate—and potentially rethink—the structure of performance-based pay:
  - Do our incentive programs reflect our operating environment?
  - What is reasonable to expect executives to deliver and over what time period?
  - Does annual pay-for-performance still make sense for our organization? What are the benefits or drawbacks to reconsidering annual pay-for-performance? How might that impact the other elements of the compensation plan design?
  - Do we have triggers in our plan design that should be re-evaluated?
  - How have our goals changed over the last five years? Has our performance been improving, declining, or constant?
  - Do we need to shift some of our focus to a longer-term horizon? What are benefits to taking that approach?
- Dig into the details of deferred compensation programs:
  - When did you last conduct a thorough evaluation of your non-qualified deferred compensation programs? Do we understand how these plans operate, including public reporting and tax implications?
  - Are you aware of what the projected benefit will be for the participant(s) at retirement or the end of the retention period, in addition to what is being funded along the way? Are you aware of the total projected benefit including all employer-sponsored contributions? Is the executive aware of what to expect? Executive understanding is critical to its use as a retention tool.
  - Are there alternatives available? If so, what are the pros and cons?

Healthcare providers are in a period of crisis. To navigate through it effectively will require a multitude of intertwined changes by the leadership teams that play a critical role for each of their hospitals and health systems. Directors serving on compensation committees have the opportunity to play a strategic role in the attraction and long-term retention of a relatively limited talent pool of change-making individuals. This is no easy task. It requires healthcare system boards to think less abstractly about executive compensation plans, programs, and theory and instead focus on flexibility, communication, judgement, and people through the lens of retention and long-term rewards. Incorporating career, culture, and coaching—all controllable elements—into the larger executive development approach goes even further toward creating a team that can bridge to the future.

According to Kaufman Hall, in 2022 hospitals experienced negative operating margins in 11 of 12 months and barely eked out a 0.2 percent gain in December. While that is movement in the right direction, approximately 50 percent of hospitals still ended the year in the red. At the same time M&A activity continued, with 53 transactions recorded in 2022. This year, labor force issues remain a top concern. When determining incentives and rewarding for success against goals, compensation committee members have to balance the stress of factors such as these, which are outside the control of the management team, while also being sensitive to the operating condition of the organization today, and the need to achieve an improved position in the future.

This article helps frame these reconsiderations in three buckets: compensation philosophy, performance-based compensation, and deferred compensation.

Executive Compensation Philosophy

For base salary, many organizations typically target in the neighborhood of the 50th percentile for an experienced, well-performing executive. Performance-based compensation plans often layer on top of the base, allowing executives to earn at higher percentiles. Is that design framework still reasonable?

First, an examination of peer groups and published salary data is warranted. A common approach is to utilize traditional, published survey data to assess the competitiveness of a compensation package, and possibly array the data in several ways to align total operating revenue, complexity, and/or organization type.

However, thinking more strategically about potential comparisons may uncover some useful information. For example, many organizations, given size or the fact that they recruit nationally, evaluate published national data, but a medium-sized rural health system of close to $1 billion in revenue calibrated their approach to market as they recruited a young, dynamic physician executive to serve as President and CEO. That analysis showed meaningful differences between the national figures and those that were more focused super-regionally. In this case, the super-regional data showed higher base compensation and total cash compensation that was modestly higher. This led the organization to reconsider the degree of leverage in the annual incentive plan and shift more to long-term outcomes in order to better align with peers.

Similarly, examining the slate of offered benefits may influence the attractiveness of an offer, particularly now and in healthcare when work/life balance, wellness, and mental health concerns are more than casual concerns.

Performance-Based Compensation

Over the last 20 years, annual variable performance-based compensation has grown exponentially. Depending on the analysis, approximately 65 to 90 percent of executives have some form as a component of the overall compensation package. Over that time, goal setting has become more sophisticated, tightly focused, and predicated on outcomes as opposed to process measures.

Moreover, the intent of the programs are to align organizational performance with compensation. Over the last several years, the degree to which factors contained in the program are controllable by management has become a larger discussion. For healthcare providers, this has been even more acutely felt given the inability to effect prices or reimbursement—or a global health crisis.

If the variable compensation program is highly leveraged and the metrics upon which it is based are unrealistic in light of the operating environment, the organization has increased the potential for negative effects on culture, morale, and ultimately retention.

Prior to 2020, many organizations had specific financial triggers that if not met would cause the program to remain unfunded. During the pandemic, we saw many organizations take steps to loosen some of those restraints to recognize the impact of the pandemic and acknowledge other aspects of progress. These are positive developments for management and the board. (After all, you do not want your tax-exempt compensation program to be too reliant on financial outcomes for payment, lest you look too much like a for-profit entity and risk your tax-exempt status.)

Many hospitals and health systems are considering permanently modifying their annual incentive programs. Financial measures are no longer an off/on switch and viewed more as an important consideration left to the judgement of the committee. Other options include:

- Lowering the amount of pay at-risk
- Shifting the at-risk compensation to be more long-term than annual, given the time horizon of many initiatives
- Taking a hard look at the established criteria compared to past performance and future expectations, given the extent to which the landscape has shifted

If the key is to attract, motivate, and retain top talent, the program should be properly balanced between high achievement and facts on the ground. If the variable compensation program is highly leveraged and the metrics upon which it is based are unrealistic in light of the operating environment, the organization has increased the potential for negative effects on culture, morale, and ultimately retention. The experience with the pandemic has shown that boards inherently recognize the need to be nimble and ensure retention of the right people to avert burnout or early departures.

Deferred Compensation

Healthcare organizations have long used traditional deferred compensation to bolster retirement income and link the executive's future compensation to their commitment to the organization. Anecdotally, many CEOs insist that if not for robust retirement benefit plans, they might not have stayed in the role. Clearly, deferred compensation can be a helpful retention tool.

In the past, plans were designed with retirement in mind, but offered earlier access to funds to lessen forfeiture risk, manage optics, or avoid piercing excise tax thresholds. Today, both boards and executives are looking for opportunities to create longer-term value in a fiscally responsible manner.

Over the last three years, we have seen many organizations turn the traditional approach on its head in a number of meaningful ways to include:

- A focus on the anticipated benefit produced at the end of the period, rather than the contribution being made, which allows for a better understanding of what is accessible to the executives if they meet the vesting requirements laid out by the board
- A re-emergence of using limited defined benefit strategies to ease one burden for executives in a volatile investment market
- Broader analysis of vehicles available for deferral to ensure that the board and executives have a better understanding of all options, benefits, and drawbacks

It should be noted that deferred compensation is one area where the options for plan design are often misunderstood and can lead to less favorable outcomes.

Conclusion

In a challenging operating environment where strategic momentum can take years to be realized, maintaining an effective individual or group can be the difference between capitalizing on opportunities and failure. Since the pandemic we have seen an explosion of healthcare organizations looking to find creative and proven strategies to retain both experienced and high-potential talent in the face of any number of circumstances that might draw them away. This will accelerate as organizations continue to consolidate.

Can these technical steps related to compensation serve to limit our risk of talent flight—either to competitors or another less-volatile industry? Can they serve to simplify the current pay program and allow for greater impact? Might these steps allow the organization to strengthen its long-term stability and sustainability as a going concern or to be more attractive as a partner? Certainly, compensation plan design is not the only answer, but it is one important and impactful piece of the puzzle that may help retain and grow a change-making leadership team.

The Governance Institute thanks Alexander Yaffe, Managing Director, Pearl Meyer, for contributing this article. He can be reached at alexander.yaffe@pearlmeyer.com.

Understanding Your Market...

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As health systems, we cannot only think about what is best for our organization. Of course, internal impact is a very important strategic consideration, but understanding the responses of other entities must also be a top priority. If organizations are not aggressive enough in a specific area, they may invite new competition into the market. But, if they are overly aggressive with a neighboring organization, they may push local competitors away and into relationships with organizations outside the region.

Finally, organizations must not overlook the impact on medical staff. Healthcare leaders and governing boards should be tuned into staff and their concerns. The decision to collaborate or compete with independent medical groups is one for which there is no playbook. Ask yourself whether your margins are stable enough to enter into value-based care expansion. If they are, what are the benefits to your health system and how do they compare to the alternative?

Let Data Drive Decisions

Understanding your current market environment is probably the single biggest priority in developing the "right" new strategies. This begins with clearly defining your primary and secondary markets and understanding your organization's share in each. Nowadays, every hospital should know how much leakage is drawn from their local physician group and partnering organizations. Although it may not be possible for all organizations to justify the price tag associated with real-time outpatient data analytics software, they should ensure they have access to enough information to understand their local markets. If an organization is struggling with accessing this information, it might be wise to look to an outside resource.

It is more important now than ever for governing boards and management to make accurate decisions around new and progressive strategies to reach or maintain sustainability for their organizations. Making time for strategic discussions, investing in education, collaborating with other entities, and using data to drive decisions will only help hospitals and health systems to achieve long-term goals and care for the communities served.

The Governance Institute thanks Jeremy Normington-Slay, D.P.T., FACHE, President and CEO, Firelands Health, Sandusky, Ohio, for contributing this article. He can be reached at norminj@firelands.com.

Branding Is Back...

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- What does our organization clearly do best? What's the one thing (not five or 10) that we do the very best and we can *prove* it? Can consumers and patients get this anywhere else or is it solely ours? *Note: if others also do what we do best it isn't a disqualifier, but it means we have to differentiate that particular value or proposition. It must be different if we want to be the best.*
- How do we measure our brand? Do we only ask our patients what they think of us or do we include the wider community? Do we also ask our employees? *If measurement is lackluster (it often is) then ask: how should we measure our brand?*

A common objection I hear at the board level is, "We don't have enough money to explore our brand." I find this curious for two reasons: First, you already spend money on your brand. You already pay for marketing, advertising, and communications. You hang signs and print paychecks with your logo intact. You also deal with your current reputation and its ability to attract patients—or not. Your brand costs your organization money every day. Second, the benefits of a stronger brand far outweigh concerns and cost. A strong brand in healthcare means higher awareness and preference and that increases the likelihood of converting consumers into patients.[2] Don't forget about our employees who we desperately seek to retain: LinkedIn's research shows that a strong brand reduces employee turnover by 28 percent and cost per hire by 50 percent.[3] And consistency is key. By presenting your brand in a clear, simple way across physical and digital platforms, companies can increase revenue by up to 23 percent.[4] Who better than to drive consistent value into every corner of the company than a board who is dialed into the brand.

One of the most common fears I hear from board members and executives is the encroachment of Amazon, Walmart, CVS, and other powerful quasi-healthcare brands. They all possess clear, compelling, well-known brands. Would you want to battle these brands without shoring up your own?

So, what could possibly get in the way? The most common enemy of branding success is not your competition. It's not the perceived (and misunderstood) expense. Your biggest challenge is changing perceptions. Minds aren't easily molded. Chances are that your current brand has COVID. Cash is tight and the appeal of hunkering down is quite strong. That means it's a perfect time to refresh your perspective on who you are and what you do best. Asking these questions at the board level may reveal surprising answers and new pathways to explore. Either way, we have entered a time of great uncertainty and that means incredible opportunity to do something different. Think, discuss, and act on something new. It will clear up your brand blur and give you a leg up on the competition.

The Governance Institute thanks Ryan Donohue, Strategic Advisor, NRC Health, and Governance Institute Advisor, for contributing this article. He can be reached at rdonohue@nrchealth.com.

2 NRC Health Market Insights Survey, 2023.
3 "Why Employer Branding Matters, Now, More Than Ever?," Rato Communications, January 23, 2022.
4 Ilya Lipovich, "Building Brand Recognition through Your Content and BI Tools," *Forbes*, August 20, 2021.

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across non-contiguous geographies (e.g., Illinois and Wisconsin-based Advocate Aurora Health's 2022 merger with North Carolina-based Atrium Health to create Advocate Health).

The potential efficiencies created by these mergers—especially in administrative and back-office functions as the systems centralize in a single headquarters—are significant, and parties are establishing bold goals to leverage the resources these efficiencies could generate. Advocate Health, for example, plans to "do more, be better, and go faster" with emphases on accelerating innovations to patients, addressing root causes of health inequities, and advancing population health.[3] In other instances, the combination facilitates the expansion of a partner's capabilities into a new geography. For example, in both the Corewell partnership and the recently announced plan to combine New Mexico-based Presbyterian Healthcare Services with UnityPoint Health in Iowa, one of the partners has long-standing expertise with a provider-based health plan.

Cross-regional partnerships also provide an opportunity to build scale when opportunities for inorganic growth in a health system's local market grow scarce. In an environment of heightened regulatory scrutiny, partnerships within a system's existing geography have become more difficult. Combinations of health systems with little or no geographic overlap do not affect the concentration of providers in the combined markets. In some cases—for example, when one partner can introduce new health plan offerings into the other partner's market—competition for healthcare services can be enhanced.

A New Model for Affiliation?

Several drivers are creating the need for a new affiliation model for certain smaller or mid-sized systems. First, heightened regulatory scrutiny may leave these systems "trapped" in their market, unable to merge with a local partner because of potential regulatory challenges. Second, some may have difficulties attracting interest from potential partners because of their size, strategic positioning, financial health, or other reasons. Third, some systems are reluctant to give up governance control over local healthcare delivery decisions. We believe there are opportunities for a new affiliation model that can deliver true value to all partners, offering revenue enhancement opportunities for health systems that have developed sophisticated administrative or clinical service offerings and opportunities for smaller systems that need to reduce expenses to improve operating margin or expand service offerings to remain competitive in their market.

This model would resemble a management services organization (MSO) model, with health systems that have developed strong capabilities offering a suite of administrative services (e.g., human resources, revenue cycle, finance, IT), clinical services (e.g., service line support, care delivery redesign consulting), or both. The model may be fee-based, with no ownership investments or combinations that would require regulatory review or affect governance structures. The model could be structured in numerous ways, with considerations including whether services would be offered as a package or a menu of options, and whether the affiliation would be branded (potentially valuable for clinical service enhancements) or non-branded.

UnitedHealth Group's Optum division has piloted a model that provides

support in such areas as IT, revenue cycle management, analytics, claims processing, and utilization management.[4] The challenge for large health systems is to create a differentiated model that leverages their unique expertise and provides the support needed for health systems in smaller markets or rural areas to remain independent. As margins tighten at health systems both large and small, this model could offer new ways for health systems that have successfully pursued efficiencies of scale to monetize their expertise.

Conclusion: A Time for Bold Thinking

Facing challenges on multiple fronts, hospitals and health systems are rethinking how partnerships can help them achieve long-term sustainability. New efficiencies, capabilities, and growth opportunities are required, and a willingness to think big—and think beyond traditional boundaries—will be a driver of success.

The Governance Institute thanks Courtney Midanek, a Managing Director at Kaufman, Hall & Associates, LLC, for contributing this article. She can be reached at cmidanek@kaufmanhall.com.

3 Advocate Health Care, "Advocate Aurora Health and Atrium Health Complete Combination" (press release), December 2, 2022.

4 John Muir Health, "John Muir Health and Optum Launch New, Comprehensive Relationship to Advance Quality Care and Experiences for Patients in Bay Area" (press release), July 7, 2019.

Branding Is Back: Revisiting Who We Are After Three Years as the COVID Care Provider

By Ryan Donohue, NRC Health

Key Board Takeaways

- Ensure the board is involved in the brand's creation, socialization, and measurement.
- Take a hard look at your current and past messaging to get a better sense of where to go next. COVID response messaging has created a brand blur, so now is the time to differentiate your brand.
- Discuss your organization's brand at every board meeting. One of the key reasons patients choose a hospital is their brand, yet we often assume its value or neglect it for other matters.
- Decide what your organization does best and then put real time, energy, and spirit into imparting your brand on employees, physicians (both employed and independent), patients, and consumers across the communities you serve.

During the pandemic, unity was a necessity. With incredible speed and purpose, healthcare organizations of all kinds banded together to fight COVID-19. This concerted response was necessary to contain the virus and avoid overwhelming emergency rooms. It also created an unanticipated consequence: every healthcare brand sounded the same. In local markets, competing brands started carefully assimilated phrases like "unprecedented times" and "abundance of caution" while evangelizing "six feet apart" in unison. Their Web sites all had eerily similar photos of the masked, links to testing, and locations to be vaccinated. A sea of sameness had emerged.

Three years later, we are drying off and finding that consumers across the country listened to us:[1]

- Four in 10 consumers reported "hearing the same message" from local healthcare organizations.
- Four in 10 consumers were not sure if they had heard different messages or not.
- Two in 10 consumers reported "hearing different messages" from local healthcare organizations.

Our powerful show of unity has left behind a brand blur. After decades of carefully cultivating brands that promoted strengths and displayed points of differentiation, every brand purposely started sounding the same. The fallout is emerging: many consumers and patients no longer feel connected to the healthcare brands most familiar to them. While general brand awareness has remained high (due largely to consumers tuning into COVID messaging) a steady 32 percent of consumers have "no preference" when asked where they will go next for care. This includes patients who have had a recent experience but still don't retain a future preference for care.

At the board level, we must ask ourselves: without COVID to define us, who are we? Healthcare branding is clearly at a crossroads between COVID messaging and a new brand message. Strong brands will not hesitate to branch out from baseline pandemic messaging, eagerly shedding their sameness for a bold new positioning. Some have already done so. Intermountain Health recently rebranded and boasts an incredibly unique look. Not something you see in healthcare, and that's the point.

As we branch out, boards may also ask: should we resume our pre-pandemic brand messaging? Perhaps you were pursuing advanced technology, compassionate care, convenience, or a combination of all three. Much like life these days, it's not feasible to return to 2019. As our consumers have changed preferences, so have patients and the experiences they receive. Healthcare is different. The pandemic proved telehealth is a real experience. Inflation has put healthcare out-of-pocket costs in an increasingly unfavorable light. Convenience is the newly crowned king, even in healthcare. Many patients have decided not to be patients at all. So far this year, nearly one in three consumers are deferring their care. Outside of an emergency, what will lure them back?

Strong brands turn disconnected consumers into engaged patients. It's not easy or fast, but branding is a strategy that must be pursued all the way at the top of healthcare organizations. According to consumers, "reputation" of a healthcare provider is a top three reason to choose them—sharing the stage with insurance acceptance and doctor recommendation. As a board, how much time do we spend discussing and debating insurance networks and physician referral patterns? Now how much time do we give to our reputation? Many boards assume their brand reputation is already addressed or is to be assumed. It is not.

Revisiting Branding at the Board Level

Members of the board have a unique perspective as they often come from other industries where brand building is a necessity and reputation is everything. Harnessing their inherent knowledge and unique vantage point, the board should discuss and debate the following:

- What is our current brand? Who are we and what value do we provide? Do consumers and patients agree with this assessment? *Note: this isn't aspirational. This is what we believe we are right now.*

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1 The data in this article is from NRC Health's Market Insights study of healthcare consumers, national, 2022–2023, n size = 75,364.